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(6) Case mix adjustment. A facility shall receive an increase or decrease in the direct component of its rate if the facility has increased or decreased its case mix from one assessment period to the next and, in accordance with subparagraph (v) of paragraph (4) of this subdivision, would not have received any change in the direct component of its rate from that determined as of January 1, 1986 to the current calculation date. The increases or decreases in the direct component of the rate shall be determined as follows:

(i) The facility specific mean price per day effective January 1, 1986 as determined in accordance with section 86-2.10(4)(i) shall be compared to the facility specific mean price per day determined as a result of the submissions required in accordance with section 86-2.11(b) of this subpart. Any increase or decrease determined as a result of such comparison, shall be expressed as a percentage, positive or negative, of the facility specific mean price per day effective January 1, 1986.

(ii) This percentage shall be applied to the Facility Specific Cost Based Direct Price Per Day determined as of January 1, 1986 and an adjustment factor shall be determined.

(iii) This adjustment factor shall be added to or subtracted from the facility specific cost based direct price per day determined as of January 1, 1986, to arrive at an adjusted facility specific cost based direct price per day which shall become for a facility

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their facility specific adjusted payment price per day for applicable rate period for which payment rates are adjusted pursuant to section 86-2.11 of this Subpart.

(d) Indirect component of the rate.

(1) Allowable costs for the indirect component of the rate shall include costs reported in the following functional cost centers on the facility's annual cost report (RHCF-4) or extracted from a hospital based facility's annual cost report (RHCF-2) and the institutional cost report of its related hospital, after first deducting for capital costs and allowable items not subject to trending:

- (i) fiscal services;
- (ii) administrative services;
- (iii) plant operations and maintenance (with the exception of utilities and real estate and occupancy taxes);
- (iv) grounds;
- (v) security;
- (vi) laundry and linen;
- ~~[(vi)]~~(vii) housekeeping;
- ~~[(vii)]~~(viii) patient food services;
- ~~[(viii)]~~(ix) cafeteria;
- ~~[(ix)]~~(x) non-physician education;
- ~~[(x)]~~(xi) medical education;
- ~~[(xi)]~~(xii) housing; and
- ~~[(xii)]~~(xiii) medical records.

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(2) For the purposes of establishing the allowable indirect component of the rate, facilities shall be combined into peer groups as follows:

(i) Size:

- (a) less than 300 beds;
- (b) 300 or more beds.

(ii) Affiliation:

- (a) free-standing;
- (b) hospital-based.

(iii) Case mix index:

- (a) high intensity, case mix index greater than .83;
- (b) low intensity, case mix index less than or equal to .83.

(3) If any peer group contains fewer than five facilities, those facilities shall be included in a peer group of a similar type.

(4) For each of the peer groups, the indirect component of the rate shall be determined as follows:

(i) A mean indirect price per day shall be computed as follows:

(a) Reported allowable costs for the indirect cost centers for each facility in the peer group, after first deducting capital costs and allowable items not subject to trending shall be adjusted by applying the Regional Indirect Input Price Adjustment Factor ("RIIPAF"), as determined pursuant to paragraph (6) of this subdivision.

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(b) The results of the calculation in clause (a) of this subparagraph shall be aggregated and divided by total 1983 patient days of all facilities in the peer group.

(ii) The mean indirect price per day shall be the basis to establish a corridor between the base indirect price per day and the ceiling indirect price per day. The corridor shall be established by use of a base factor and a ceiling factor expressed as a percentage of the mean indirect price per day.

(a) The base factor shall be approximately 90 percent for the period January 1, 1986 through December 31, 1986. For the period January 1, 1987 through December 31, 1987, such factor shall be increased to approximately 95 percent. For the period January 1, 1988 through ~~December 31, 1988, and thereafter,~~ December 31, 1992, such factor shall be increased to approximately 97.5 percent. For the period January 1, 1993 through December 31, 1995, such factor shall be approximately 92.5 percent.

(b) The ceiling factor shall be approximately 110 percent for the period January 1, 1986 through December 31, 1986. For the period January 1, 1987 through December 31, 1987, and thereafter, such factor shall be reduced to approximately 105 percent.

(iii) For the period January 1, 1986 through December 31, 1986, the base factor and ceiling factor contained in subparagraph (ii) of this paragraph, shall result in a 20 percent corridor. For the

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period January 1, 1987 through December 31, 1987, the base factor and ceiling factor contained in subparagraph (ii) of this paragraph shall result in a 10 percent corridor. For the period January 1, 1988 through December 31, 1988, and thereafter, the base factor and ceiling factor contained in subparagraph (ii) of this paragraph shall initially be determined to result in a five percent corridor. The ceiling factor shall then be increased by 2.5 percent.

(iv) The base indirect price per day shall be determined by multiplying the base factor times the mean indirect price per day.

(v) The ceiling indirect price per day shall be determined by multiplying the ceiling factor times the mean indirect price per day.

(vi) The facility specific indirect adjusted payment price per day shall be determined by comparison of a facility's adjusted reported indirect costs after deducting capital costs and items not subject to trending and after application of the RIIPAF, divided by the facility's total 1983 patient days, with the base indirect price per day and the ceiling indirect price per day. Except as outlined in subparagraph (vii) of this paragraph, the facility specific indirect adjusted payment price per day shall be established as presented by the following table:

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Facility Adjusted Costs	Facility Specific Indirect
<u>Divided by Patient Days</u>	<u>Adjusted Payment</u>
	<u>Price Per Day</u>

<u>Below Base Indirect Price Per Day</u>	<u>Base Indirect Price Per Day</u>
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<u>Between Base Indirect Price Per Day</u>	<u>Reported Adjusted</u>
<u>and Ceiling Indirect Price Per Day</u>	<u>Costs Per Day</u>

<u>Above Ceiling Indirect Price Per Day</u>	<u>Ceiling Indirect Price Per Day</u>
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(vii) The facility specific indirect adjusted payment price per day shall be considered to be the facility specific cost based indirect price per day when such price is below the facility specific base indirect price per day for the following operations of residential health care facilities:

(a) An operator who has had an operating certificate revoked pursuant to Section 2806(5) of the Public Health Law and is operating a residential health care facility pursuant to an Order of the Commissioner of this department;

(b) An operator of a facility in which the federal Health Care Financing Administration (HCFA) has imposed a ban on payment for all Medicare and Medicaid admissions after a

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specified date pursuant to section 1866(f) of the federal Social Security Act until the lifting of the ban in writing by HCFA.

(5) For each rate year, a facility's indirect costs shall be compared to the peer groups identified in paragraph (2) of this subdivision as follows:

(i) A facility's peer group established pursuant to paragraphs (2)(i) and (ii) of this subdivision shall be based on that facility's affiliation status prior to the effective rate period, contingent upon the provisions of section 86-2.34 of this Subpart, and total certified bed capacity listed on the operating certificate.

(ii) Those facilities having 80% or more of all patients falling into patient classification groups with weights greater than .83 shall be compared to the peer group established pursuant to clause (a) of subparagraph (iii) of paragraph (2) of this subdivision.

(iii) Those facilities having 80% or more of all patients falling into patient classification groups with weights equal to or less than .83 shall be compared to the peer group established pursuant to clause (b) of subparagraph (iii) of paragraph (2) of this subdivision.

(iv) Those facilities who do not meet either of the above conditions identified in subparagraphs (ii) and (iii) of this paragraph, shall be compared to a blended peer group mean price per day. Such price shall be determined by blending the number of a facility's patients which have patient classification group weights above .83 at the high intensity peer group mean price and the number of a facility's patients at or below .83 at the low intensity peer group mean price as defined pursuant to paragraph (4) of this subdivision.

(v) The peer group mean price effective January 1st of each rate year shall be based on the PRIs submitted by each facility for the fourth quarter

of the preceding calendar year in accordance with 86-2.11(b) and 86-2.30 of this Subpart. Until such PRIs are available, the peer group mean price shall be based on the most current PRIs available prior to calculation of the initial rate effective January 1st of each rate year. The peer group mean price shall subsequently be revised based on more recent PRI submissions until such time as the PRIs for the fourth quarter of the preceding calendar year are available.

[(5)] (6) The indirect component of a facility's rate shall be the facility specific indirect adjusted payment price per day determined in accordance with subparagraphs (vi) and (vii), as applicable of paragraph (4) of this subdivision after application of the RIIPAF.

[(6)] (7) The RIIPAF shall be based on the following factors:

[(a)] (i) residential health care facilities shall be grouped by county, into 16 regions within the State as outlined in Appendix 13(b) infra.

[(b)] (ii) the facility's staffing, based on case mix predicted staffing for registered professional nurses, licensed practical nurses, and aides, orderlies and assistants for each facility. The case mix predicted staffing shall be adjusted annually on January 1st of each rate year based on the [most recent] PRI's submitted by each facility [prior to January 1st], for the fourth quarter of the preceding calendar year, in accordance with sections 86.2.11(b) and 86-2.30 of this Subpart. Until such PRIs are available, the case mix predicted staffing shall be based on the most current PRIs available prior to calculation of the initial rate effective January 1st of each rate year. The case mix predicted staffing shall subsequently be revised based on more recent PRI submissions until such time as the PRIs for the fourth quarter of the preceding calendar year are available; and

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[(c)] (iii) the proportion of salaries and fringe benefits costs for the indirect care cost centers indicated in paragraph 1 of this subdivision to the total costs of such indirect care cost centers.

(e) Gain or Loss Limitation for the Direct and Indirect Component of the Rate:

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Gain or losses resulting from using the Regional direct or indirect input price adjustment factors rather than individual facility specific direct or indirect input price adjustment factors shall be determined as follows:

(1) A facility's allowable direct costs divided by the facility's 1983 total patient days shall be compared to the facility's direct component and a direct gain or loss per day calculated.

(2) A facility's allowable indirect costs divided by the facility's 1983 total patient days shall be compared to the facility's indirect component and an; indirect gain or loss per day calculated.

(3) The facility's direct gain or loss per day and indirect gain or loss per day shall be summed to arrive at a facility's net composite gain or loss per day.

(4) If a facility's net composite gain or loss per day is greater than \$3.50, for the rate year 1986, a limitation shall be applied for rate years 1986 through 1988 as follows:

(i) For 1986 rates, if a facility has a net composite gain, then a facility's direct or indirect cost per day shall be determined by utilizing the Regional or the individual facility specific input price adjustment factor, which ever factor when applied would reduce the gain.

(ii) For 1986 rates, if a facility has a net composite loss, then a facility's direct or indirect cost per day shall be determined by utilizing the Regional or the individual facility specific input price adjustment factor, whichever factor, when applied, would reduce the loss.

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